

PROPOSED RESOLUTION

Resolution W-4966
DWA/RSK/BMD/drs/ds4

AGENDA ID #13108 (Rev. 2)
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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-4966
August 14, 2014

RESOLUTION

(RES. W-4966) TRAVER WATER COMPANY, ORDER
AUTHORIZING A RATEBASE OFFSET, PRODUCING AN
INCREASE IN GROSS ANNUAL REVENUE OF \$15,063, OR
15%, OVER CURRENTLY APPROVED GROSS REVENUES.

SUMMARY

Traver Water Company filed Advice Letter 18-W on July 12, 2012, seeking a rate base offset of \$55,656 for capital improvements at a rate of return of 13.25%, which would result in an increase in annual revenue of \$14,860, or 15%, above current adopted revenue. Advice Letter 18-W contained several duplicate invoices which required the submittal of supplemental Advice Letter 18-W-A, filed on November 13, 2012, which eliminated the duplicate invoices and reduced the requested rate base offset to \$48,788 which would result in an increase in annual revenue of \$13,056, or 12.9%, above current adopted revenue.

On May 20, 2014, Traver Water Company filed Advice Letter 18-W-B requesting recovery of professional service costs in addition to the recovery of the capital improvements requested in Advice Letter 18-W-A. Advice Letter 18-W-B requests an increase of \$15,063 in revenues which is an increase of 15% above current adopted revenue.

This resolution grants Traver Water Company's request for a rate base offset of \$48,788, plus the requested professional service costs which results an increase in annual revenue of \$15,063, or 15%. This increase in revenues will increase residential flat rate service from \$48.93 to \$56.27, or 15%. Metered rates and service charges are also

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increased 15%. This increase will not result in a rate of return greater than the 13.25% rate of return previously authorized for Traver Water Company in Resolution W-4748¹.

BACKGROUND

Traver Water Company (Traver) is a Class D water company serving 178 fixed rate customers in the unincorporated community of Traver in Tulare County approximately 14 miles north of Visalia, and has its business office in the City of Coalinga in central California. The last general rate case (GRC) for Traver was adopted by Resolution (Res.) W-4748 on March 12, 2009, which authorized an increase in revenue of \$33,050, or 49.9%, and a rate of return of 13.25%. The present rates became effective on April 27, 2012, by approval of Advice Letter (AL) 17-W, which authorized an increase of 3.0% for the consumer price index.

Traver filed AL 18-W on July 12, 2012, seeking a rate base offset of \$55,656 for mainline and other capital improvements. Traver requested authority under General Order 96-B, Water Industry Rules, 7.3.3 (8), and Section 454 of the Public Utilities Code to increase rates for water service to produce additional annual revenues of \$14,860, or 15%, based on a rate of return of 13.25%. AL 18-W contained several duplicate invoices which necessitated Traver filing supplemental AL 18-W-A on November 13, 2012, which removed duplicate invoices and revised the annual revenue increase to \$13,056, or 12.9%.

During the Division of Water and Audits (DWA) analysis of the documentation supporting AL 18-W and AL 18-W-A discrepancies were identified for plant, depreciation and accumulated depreciation data taken from Traver's annual reports. These discrepancies prohibited DWA from determining the reasonable plant additions for purposes of analysis. On March 14, 2014, Traver amended its 2005 through 2012 annual reports and corrected plant, depreciation and contract work data in the reports. As a result the total rate base offset request is the \$48,788 amount requested by AL 18-W-A.

Subsequently, on May 20, 2014, Traver filed AL 18-W-B in order to identify the professional service costs incurred to process the rate base offset requests in AL 18-W, AL 18-W-A, and AL 18-W-B. AL 18-W-B includes the work logs for professional services in support of the rate base offset in AL 18-W and AL 18-W-A. As a result of adding the professional services costs which are amortized over a three year period to

¹ Resolution W-4748 was adopted on March 12, 2009.

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the requests in AL 18-W and AL 18-W-A, the requested total increase in revenues is \$15,063.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to the customers on July 13, 2012. The notice indicated that the maximum increase in rates would be 15%. DWA and Traver received no letters protesting the rate increase.

DISCUSSION

In support of its request for the rate base offset, Traver provided 11 invoices documenting the incurred costs for the rate base offset. A review of each of the invoices which are dated between March 2007 and September 2013 documents the costs item by item, and indicates that the costs and the purposes for each cost were reasonably incurred.

As these costs were incurred for plant projects over a six year period, the question raised is whether any of the costs were already included in rates through the plant component of rate base and therefore a component of rates due to a general rate case. In order to answer this question, the staff reviewed the plant amounts included in the last general rate case in Res. W-4748, adopted March 12, 2009, and the plant amounts developed from filed annual reports. As part of this analysis, staff also reviewed Traver's annual reports submitted for 2005 through 2012. This included comparisons of contracting costs which were expensed in these years. During that review it was found that certain errors existed in the filed annual reports for the amounts shown for plant, depreciation and accumulated depreciation. Consequently, staff from DWA's Audit, Finance and Compliance Branch performed an audit of Traver and submitted a financial audit report on November 22, 2013. As a result of this audit Traver amended their annual reports for 2005 through 2012. A review of the revised annual reports does not indicate that any of the plant amounts requested in this rate base offset request were included in prior rates.

The financial audit also found that California Water Services , Inc. (CWS), is an affiliate of Traver, although the audit made no recommendations or adjustments to recorded amounts regarding CWS. As shown in AL 18-W-B contract services is the greatest

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operating expense for Traver², and CWS contract costs are also included in the invoices supporting the rate base offset. A review of the incurred CWS costs which are included in invoice amounts shows that these were reasonably incurred. However, this relationship raises concerns regarding the reasonableness of costs charged by CWS to Traver and future costs which may be incurred in developing plant additions. This issue should be reviewed and addressed in Traver's next general rate case.

In addition to reviewing each invoice, staff verified that the plant additions were prudent and necessary to either replace old equipment or to make repairs to existing service connections. As the plant additions include two new fire hydrants, these additions will provide safety and security enhancements. Staff also reviewed the professional services invoices and rates charged to process this rate base offset request as detailed in AL 18-W-B and found the charges to be reasonable³.

After staff review and analysis of AL 18-W and AL 18-W-A the following plant additions are reasonable and should be included in existing plant:

Well Motor and Column Pipe Replacement	\$ 12,467
Well Motor and Cable Replacement	10,028
Chlorine Pump Replacement	417
Fire Hydrant Replacement	3,567
Fire Hydrant Replacement	1,768
Well Sanding Research prior to repair	5,000
Pump Motor, Valve and material Replacement	10,175
Service Replacment of Shut Off	1,685
Service Replacement of water service	700
Service Replacement of Water Services	2,318
Well Service Materials and Valve	734
Adjustment to maintain a 15% increase ⁴	<u>(80)</u>
Total Plant	\$ 48,779

² It is noted that while CWS provides contract services to Traver, Traver does not currently incur a management cost to operate the utility.

³ Traver requests to amortize total professional services costs over three years.

⁴ Traver requests that the increase in revenues should not exceed the 15% that was noticed to customers, and therefore an adjustment is made to accomplish that purpose.

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Consistent with the requirements of Standard Practice U-27-W and the policy that a utility may not earn in excess of its authorized rate of return, staff calculated the revenue and rate of return using the requested rate base offset and professional services costs. As shown in Attachment A, Traver's rate of return with the rate base offset and professional costs equates to its adopted rate of return of 13.25%.⁵

At DWA's recommended rates shown in Appendix B, the bill for a flat-rate residential customer would increase from \$ 48.93 to \$ 56.27, or 15.0%; similarly, 15% increases are applied to quantity rates and service charges for metered customers.

COMPLIANCE

Traver has no outstanding compliance orders. The utility has been filing annual reports as required, and has now amended its annual reports for 2005 through 2012 for plant, depreciation, accumulated depreciation and contract work.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day public review period.

FINDINGS

1. Traver Water Company (Traver) filed Advice Letter (AL) 18-W filed on July 12, 2012, seeking a rate base offset of \$55,656 for capital improvements which would result in an increase in annual revenue of \$14,860, or 15.0%, at a rate of return of 13.25%.
2. AL 18-W contained several duplicate invoices, which necessitated the filing of supplemental AL 18-W-A, seeking a rate base offset of \$48,788.
3. Subsequently Traver filed AL 18-W-B which requested an increase in revenues to recognize the increase in professional services expenses attributable to the rate base offset request.
4. The last GRC for Traver was adopted by Resolution (Res.) W-4748, which authorized a rate of return of 13.25%.

⁵ Res. W-4748 (Adopted March 12, 2009)

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5. Present rates became effective on April 27, 2012, by approval of AL 17-W, which authorized an increase of 3.0% for the consumer price index.
6. On March 21, 2014, Traver submitted amended annual reports for 2005, 2006, 2007, 2008, 2009, 2010, 2011, and 2012 correcting discrepancies.
7. The annual revenue requirement for the \$48,788 increase in rate base and professional services costs is \$15,063 per year.
8. The Commission finds that, after investigation by DWA, the rate base and professional services costs and the resulting revenue requirement increases and rate increase hereby authorized are just and reasonable.
9. The plant additions were required to replace old and worn-out systems or to make repairs to Traver's existing water system .
10. The new fire hydrants will improve public safety and security.
11. DWA's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
12. The rates recommended by the DWA (Appendix B) are reasonable and should be adopted.

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THEREFORE IT IS ORDERED THAT:

1. Traver Water Company is authorized to file a supplemental advice letter incorporating the revised rate schedules attached to this resolution as Appendix B, and to cancel its presently effective Schedule No. 1, General Metered Service, and Schedule No. 2, General Flat Rate Service. The effective date of the revised Schedule shall be five days after the date of filing.
2. Within six months of the adoption of this resolution, Traver Water Company shall file an advice letter with DWA for a full general rate case to review its operations, revenue requirements, and its contract costs charged by its affiliate, California Water Services, Inc.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of California held on August 14, 2014; the following Commissioners voted favorably thereon:

PAUL CLANON
Executive Director

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APPENDIX A

Traver Water Company Summary of Earnings

Item	Res. W-4748	2013 Recorded	Rate Base Offset	Earnings Test at Division Recommended Rates
<u>OPERATING REVENUES</u>				
<i>Unmetered Revenue</i>	\$98,396	\$96,725		
<i>Other Revenue</i>	\$864	\$5,176		
<i>Total Revenue</i>	\$99,260	\$100,423	\$15,063	\$115,486
<u>OPERATING EXPENSES</u>				
Purchased Power	\$0	\$16,744		\$16,744
Other Volume Related Expenses	\$0	\$0		\$0
Employee Labor	\$0	\$683		\$683
Materials	\$109	\$721		\$721
Contract Work	\$46,467	\$60,571		\$60,571
Other Plant maintenance	\$0	\$0		\$0
Transportation	\$200	\$2,604		\$2,604
Office Salaries	\$0	\$0		\$0
Management Salaries	\$0	\$0		\$0
Employee Benefits	\$0	\$0		\$0
Uncollectibles	\$52	\$0		\$0
Office Services & Rental	\$541	\$53		\$53
Office Supplies and Exp.	\$1,737	\$1,277		\$1,277
Professional Services	\$2,047	\$4,538	\$2,224	\$4,271
Insurance	\$1,824	\$1,850		\$1,850
Regulatory Comm Exp	\$1,220	\$0		\$0
General Expenses	\$0	\$1,068		\$1,068
Subtotal	\$67,533	\$90,109		\$89,842
Depreciation Expense	\$5,548	\$5,381		\$5,381
Taxes other than income	\$1,665	\$2,853		\$2,853
State Income Tax	N/ A	\$800	\$1,331	\$2,131
Federal Income Tax	\$5,519	\$140	\$2,059	\$2,199
Total Deductions	\$80,265	\$98,343		\$102,406
<u>NET REVENUE</u>	\$18,995	\$1,140		\$13,080
<u>RATE BASE</u>				
Average Plant	\$214,380	\$263,168	\$48,788	\$263,168
Average Depreciation Reserve	\$22,123	\$63,120		\$63,120
<u>Net Plant</u>	\$192,257	\$200,048		\$200,048
Contributions in Aid of Construction	\$49,353	\$40,678		\$40,678
Materials and Supplies	\$500	\$500		\$500
<u>Rate Base</u>	\$143,404	\$159,870		\$159,870
Rate of Return	13.25%	0.71%		8.2%

END OF APPENDIX A

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APPENDIX B

Traver Water Company Schedule No. 1 GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

This schedule is applicable within the entire service territory served by the utility.

RATES

Quantity Rate:

All water used per 100 cubic feet	\$ 0.43
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Service Charge	Per Meter Per Month
For 3/4-inch meter	\$ 37.93
For 1-inch meter	\$ 63.30
For 1-1/2-inch meter	\$ 126.45
For 2-inch meter	\$ 202.41
For 3-inch meter	\$ 379.49
For 4-inch meter	\$ 632.50
For 6-inch meter	\$1,265.01

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF

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APPENDIX B (cont.)

Traver Water Company Schedule No. 2 GENERAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate water service.

TERRITORY

This schedule is applicable within the entire service territory served by the utility.

RATES

Per Service Connection
Per Month

For each single-family residential unit.....	\$56.27	(I)
For each business unit.....	\$90.03	(I)
For Churches.....	\$45.01	(I)
For School Fire Service.....	\$89.10	(I)

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. L.C.
2. All bills are subject to the reimbursement fee set forth in Schedule No UF.
3. The above General Flat Rate Service applies to a service connection not larger than one-inch in diameter.
4. An additional single-family residential unit shall qualify for additional charge only if such a residential unit includes cooking and bathing facilities.

For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund or the prorated difference between such flat rate payment and the metered service charge for the same period shall be made on or before that day.
- 5.

END OF APPENDIX B

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-4966 on all parties in these filings or their attorneys as shown on the attached lists.

Dated August 4, 2014, at San Francisco, California.

/s/DARLENE SUSTAITA

Darlene Sustaita

Parties should notify the Division of Water and Audits, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**TRAVER WATER COMPANY
ADVICE LETTER 18-W
SERVICE LIST**

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